

A Message from Retirement Board Chairman, Jody B. Olson

## Tax credit for low income savers among many new incentives for retirement planning

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA), became effective in 2002. It offers some new and some improved benefits for your PERSI Choice Plan 401(k) and other savings. These benefits include contribution limit increases, changes to rules for hardship withdrawals, easier rollovers between plans, a new catch-up provision for members who are at least 50 years of age, and a tax credit for lower income employees.

### Tax Credit May Reduce Your Federal Income Tax Dollar For Dollar

If you make contributions to the Choice Plan 401(k), you may be eligible for a federal tax credit, called a “saver’s credit.” This credit could reduce the federal income tax you pay dollar-for-dollar. The amount of

the credit you can get is based on the contributions you make and your credit rate. The credit rate can be as low as 10% or as high as 50%, depending on your adjusted gross income – the lower your income, the higher the credit rate. The credit rate also depends on your filing status. See the table below to determine your credit rate.

The maximum contribution taken into account for the credit for an individual is \$2,000. If you are married filing jointly, the maximum contribution taken into account for the credit is \$2,000 each for you and your spouse.

The credit is available if you are 18 or older, are not a full-time student, are not claimed as a dependent on someone else’s return, and have an adjusted gross income (shown on

- your tax return for the year of the credit) that does not exceed:
- \$50,000 if you are married filing jointly
  - \$37,500 if you are a head of a household with a qualifying person, or
  - \$25,000 if you are single or married filing separately.

**Example:** Susan and John are married and file their federal income tax jointly. For 2002, their adjusted gross income would have been \$34,000 if they had not made any retirement contributions. During 2002, Susan contributed \$2,000 to her employer’s 401(k) plan. John made a deductible contribution of

*continued - see “Incentives” on pg 2*

| Federal Tax Credit Rates for Low Income Savers |                                     |                        |                     |                           |
|--|-------------------------------------|------------------------|---------------------|---------------------------|
| Credit   | Single or Married Filing Separately | Married Filing Jointly | Head of Household   | Maximum Credit Per Person |
| 50%  | \$0 - \$15,000                      | \$0 - \$30,000         | \$0-\$22,500        | \$1000                    |
| 20%  | \$15,001 – \$16,250                 | \$30,001 – \$32,500    | \$22,501 - \$24,375 | \$ 400                    |
| 10%  | \$16,251 – \$25,000                 | \$32,501 – \$50,000    | \$24,376 - \$37,500 | \$ 200                    |

# Incentives for retirement savers include tax credits, inc

\$2,000 to an IRA for 2002. As a result of these contributions, their 2002 adjusted gross income is \$30,000 (\$34,000 - \$4,000).

The amount of federal income tax owed was then based on an income of \$30,000 instead of \$34,000. At \$34,000 their taxes would have been \$3,000, but at \$30,000, their taxes are just \$400. In this example, by saving \$4,000 for their retirement, Susan and John have also reduced their taxes by \$2,600.

The annual contribution eligible for the credit may be reduced by any taxable distributions from the Choice Plan that you or your spouse receive 1) during the year you claim the credit, 2) during the two preceding years, or 3) during the period after the end of the year for which you claim the credit and before the due date for your return for that year. A distribution from a Roth IRA that is not rolled over is taken into account for this reduction, even if the distribution is not taxable. After these reductions, the maximum annual contribution eligible for the credit per person is \$2,000.

The amount of your saver's credit will not change the amount of your

refundable tax credits. A refundable tax credit, such as the earned income credit or the refundable amount of your child tax credit, is an amount that you would receive as a refund even if you did not otherwise owe any taxes.

The amount of your saver's credit in any year cannot exceed the amount of tax that you would otherwise pay (not counting any refundable credits or the adoption credit) in any year. If your tax liability is reduced to zero because of other nonrefundable credits, such as the Hope Scholarship Credit, then you will not be entitled to the saver's credit.

## Contribution Limit Increases

The annual limits for voluntary contributions to 457, 403(b) and 401(k) plans have been increased to \$11,000 for 2002, and will increase by \$1,000 each year until the limits reach \$15,000 in 2006. After that date, limits will then be adjusted for inflation annually in \$500 increments. You may now contribute 1 - 100% of your income to the Choice Plan 401(k) as long as you don't exceed the \$11,000 limit.

The coordination of 457 deferrals with 401(k) or 403(b) deferrals has

been eliminated. This means that if you are deferring to a 457 plan and a 401(k) plan OR a 457 Plan and a 403(b) plan, you may, in most cases, contribute \$11,000 to each plan. **The coordination between 401(k) and 403(b) plans still exists; therefore, you are limited to total contributions of \$11,000 between both plans.**

The Choice Plan Salary Reduction Agreement form has been revised and is available to from our website at [www.persi.state.id.us](http://www.persi.state.id.us).

## Hardship Distributions

In the past, if you took a hardship distribution, you were prohibited from making 401(k) contributions for 12 months from the date of the distribution. EGTRRA shortens this suspension period to six months.

## Rollovers into the PERSI Choice Plan Expanded

In the past, you were able to rollover most distributions from other qualified plans and conduit IRAs. Now, you may also rollover most distributions from 457 and 403(b) plans, and from pretax IRAs (not just conduit IRAs).

If you die, your surviving spouse may make a tax-free rollover from the Choice Plan 401(k) to another 401(k) plan, a 403(b) plan, a 457 plan or an IRA.

**Example:** Tom was a participant in his company's 401(k) plan and passed away. His surviving spouse, Ann, is an employee of a public school, where she participates in a 403(b) plan. After Tom's death, Ann may



## New Contribution Limits

| If you Contribute to | 2002 Maximum |
|----------------------|--------------|
| 401(k) only          | \$11,000     |
| 457 only             | \$11,000     |
| 403(b) only          | \$11,000     |
| 401(k) and 457       | \$22,000     |
| 403(b) and 457       | \$22,000     |
| 401(k) and 403(b)    | \$11,000     |

## Increased contribution limits and more

make a tax-free rollover from her husband's employer's 401(k) plan to an IRA or to her 403(b) plan at work. Under prior law, Ann's only choice for a rollover destination would have been an IRA.

If you roll money from a 457 plan into a 401(k) plan, that money will take on the attributes of 401(k) money, and the 10% penalty for early withdrawal will be applicable.

### Rollovers out of the PERSI Choice Plan

Rollovers out of the Choice Plan 401(k) into 457 and 403(b) plans or to pretax IRAs are also now allowed if you terminate work, retire or take an in-service age 59 1/2 or rollover withdrawal. You must check first whether or not your 457 or 403(b) plan will accept rollovers.

### Inservice Purchase of Base Plan Service

Funds from the Choice Plan or 403(b) and 457 plans may now be transferred while you are still working to the PERSI Base Plan to purchase service credit or for the repayment of separation benefits, waiting periods or delinquent contributions.

### Catch-up Provision

Once you turn age 50, you may be eligible to make catch-up contributions to your Choice Plan. To be treated as "catch-up eligible" you must be age 50 or older by the end of the calendar year in which you make catch-up contributions, regardless of whether or not you terminate prior to your 50<sup>th</sup> birthday. The additional catch-up contribution is \$1,000 in 2002, and will increase in \$1,000

increments until 2006, after which it will be indexed. This means that in 2002, if you are age 50, you could contribute \$12,000 into the Choice Plan.

If you are planning to take advantage of the catch-up with your 457 plan, which has been changed to equal twice the regular 457 elective deferral limit, and which is available during the last three years before normal retirement, you cannot take advantage of the catch-up provision in the 401(k) plan at the same time.


### IRA Contribution Increases

EGTRRA increases the amounts you may contribute to traditional and Roth IRAs. The amount will increase from \$2,000 in 2001 to \$5,000 in 2008 on a phased-in basis as follows.

| Year        | IRA Limit |
|-------------|-----------|
| 2002-2004   | \$3,000   |
| 2005 - 2007 | \$4,000   |
| 2008        | \$5,000   |

After 2008, the limit will be adjusted annually for inflation in \$500 increments.

### Sunset Provision

EGTRRA contains a "sunset" provision that calls for a return to prior laws in 2011. Unless this provision is repealed before that time, the catch-up provision, higher limits, and tax credits will no longer be available. Therefore, this is a good opportunity to increase your contributions, save on taxes and better prepare yourself for retirement. 

Although PERSI had negative returns for FY01, members will receive a respectable regular interest rate

### Interest Paid to Members


Effective January 1, 2002, the regular interest rate you receive for your PERSI Base Plan account will be 4.82%.

As you may recall, in 2000 PERSI changed the Regular Interest Rate credited to member accounts to an amount equal to PERSI's net investment return rate. The rate for each calendar year is based on the annual net rate of return at the end of the previous fiscal year (June 30).

Although PERSI realized a return of -6.1% for fiscal year 2001, the interest rate for members will be the average of quarter-ending rates for 90-day Treasury Bills for the year. This means that even though PERSI had negative returns last year, you will be paid a respectable interest rate.

### Interest Paid for Buybacks

Effective January 1, 2002, interest on member repayments to PERSI for Separation Benefits, Waiting Periods or Delinquent Contributions will be 9%.

This interest rate changes each year and is equal to the three year average of the Prime Rate (as of June 30 the previous year) plus 1%. Once you begin payments, you are locked in at the payment rate at which you started. 

# Military service and PERSI benefits

## PERSI Base Plan

You may earn PERSI credit while you are on active duty. You do not have to pay contributions to receive credit for eligible military service. For PERSI purposes, "Military Service" is any active duty in the United States armed forces, including the national guard and reserves, which interrupts your PERSI service.

You may earn PERSI credit while you are on active duty if:

- you begin service within 90 days of leaving PERSI-covered employment, and
- you return to PERSI employment within 90 days of release from active duty

Military service may not exceed five years if it is at the convenience of the U.S. government, or four years if you voluntarily extend your duty. Military service does not include any period of active duty which ends in dishonorable discharge, or any period in which you could have chosen to discontinue active duty.

## PERSI Choice Plan

You may make up your voluntary pre-tax contributions to the Choice Plan 401(k) missed while on military service if you return to work within 90 days of release from active duty. You may make up any amount up to the limit not used during the applicable year. For example: If the annual limit was \$11,000 and you contributed \$2,000 before your military service, you may make up \$9,000 for the year.

You have three times the period of military service or up to five years, whichever is less, to make up the

contributions. These do not count against your annual contribution limits during the make up period.

You may be eligible to receive employer contributions and PERSI gain sharing while you are on military service. To be eligible for any gain sharing during your service, make sure that your employer sends a copy of your orders to PERSI prior to your leave of absence.

If you took a loan from your Choice Plan 401(k) and are in the process of repaying the loan, your repayments may be suspended during any period of qualified military service. Once you return from active duty payments will resume.

## Death Benefits if You Are Killed in Action

### PERSI Base Plan

#### Non-Vested Members

If you have less than 60 months of PERSI service (including military service), your beneficiary will receive a lump sum death benefit consisting of your Base plan contributions plus interest.

#### Vested Members

If you die with 60 months or more of PERSI service (including military service), you have two options:

- Your beneficiary may receive two times your Base plan contributions plus interest, or
- If you have a surviving spouse, your beneficiary may waive their Base plan lump sum death benefit to have a monthly allowance paid to your surviving spouse for his or her lifetime.

The amount of the monthly allowance is based on your age at death, that of your spouse, your months of service and your average monthly salary. The allowance will be paid in the amount of the Option 1, 100% Contingent Annuitant Allowance. In all cases, your beneficiary and surviving spouse will be notified of the value of the choices available.

## PERSI Choice Plan


In all cases, your beneficiary will receive a lump sum payment of your account balance.



## Disability Benefits if You Are Injured in Action

### PERSI Base Plan

Disabilities resulting from service in the Armed Forces or from an intentionally self-inflicted injury are excluded from a PERSI Base Plan disability retirement benefit.

### PERSI Choice Plan

The PERSI Choice Plan does not have disability benefits. 

  
  
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